UNITED
NATIONS

E

Economic and Social Council

Distr.
GENERAL

E/1995/131/Add.1
2 January 1996
ENGLISH
ORIGINAL: ARABIC, ENGLISH,
FRENCH AND SPANISH

Resumed substantive session of 1995
October-December 1995
Agenda item 1

ADOPTION OF THE AGENDA AND OTHER ORGANIZATIONAL MATTERS

Transformation of the Committee on Food Aid Policies and Programmes into the Executive Board of the World Food Programme

Note by the Secretary-General

Addendum

The present addendum contains in annex I the report of the Formal Working Group of the Committee on Food Aid Policies and Programmes on resource options and long-term financing of the World Food Programme (WFP), originally issued under the symbol CFA 40/5, and, in annex II, the section of the report of the Committee at its fortieth session, issued under the symbol CFA 40/15, in which the report of the Formal Working Group was discussed.

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Annex I

REPORT OF THE FORMAL WORKING GROUP OF THE COMMITTEE ON FOOD AID POLICIES AND PROGRAMMES ON OPTIONS FOR WFP'S RESOURCE POLICIES AND LONG-TERM FINANCING

Introduction

1. At its Thirty-eighth Session, the CFA established a formal working group on WFP's resource options and long-term financing to analyse the causes of the present financial situation, identify main constraints to resource mobilization, make proposals regarding a long-term solution to the resourcing situation, and make recommendations regarding bilateral services. The terms of reference for the Formal Working Group are shown in Annex I.

2. On receiving the interim report of the Formal Working Group, the CFA at its Thirty-ninth Session approved recommendations regarding support costs deriving from bilateral services provided by WFP. These recommendations are given in Annex II.

3. In reporting progress to the Thirty-ninth Session of the CFA, the Formal Working Group listed the significant constraints experienced by WFP as a result of its existing resourcing (including cash, commodities and services) and financial structures. The constraints fall into two groups: those that are internal and need to be resolved through changes to WFP's management and information systems, and those that are external and need to be resolved by changes to WFP's resource policies. (See Annex III.)

4. At its Thirty-ninth Session, the CFA agreed that new mechanisms for funding WFP activities were required in order to achieve a clearer relationship between funding sources and specific WFP activities and that those mechanisms should ensure full cost recovery, a concept adopted at the Thirty-eighth Session of the CFA.

5. The Formal Working Group notes that the Secretariat has undertaken various initiatives designed to overcome many internal constraints. These initiatives include: a) improved strategic and financial planning processes; b) increased staff capacity in key areas (follow-up of audit recommendations, Office of Inspection and Investigation, cash management); c) updated and improved information (cost study, resource tracking system); and d) improved procedures (responsibility budgeting, delegation of authority, performance management systems). In addition, WFP has initiated the Financial Management Improvement Programme (FMIP), a multi-year project which will redesign key processes within WFP and enhance information systems to support those processes. (Progress on the FMIP is described in document CFA 40/6.)

6. The Group has recommended a resource model (see section below) which aims to overcome the external constraints, provide more predictable, flexible resources and ensure full cost recovery, and at the same time, preserve the multilateral nature of WFP over the long term. This description is followed by recommendations made by the Formal Working Group with regard to the model and resource policies in accordance with and in fulfilment of the Group's terms of reference.

Resource Model

7. The proposed resource model consists of three dimensions: funding windows, programme categories and costs. The funding windows are: multilateral, directed multilateral and bilateral. The programme categories are development/rehabilitation/disaster preparedness (development), protracted relief operations (PRO), emergencies, and special operations. The costs arising from each programme category will be calculated separately. This model is shown diagrammatically in Figure 1, below.

Figure 1

WFP Resourcing Model

Contributions from various donor budgets	Characteristics by contribution type	*Development/ rehabilitation/ disaster preparedness*	*PRO*	*Emergencies*	*Special operations*
		Programme Categories			
Multilateral	Indirect costs (1)	A%	B%	C%	D%
	Project initiation	WFP	WFP	WFP	WFP
	Resource programming	WFP	WFP	WFP	WFP
	Standard WFP provisions, appeal budgets, project documents and reporting acceptable	Yes	Yes	Yes	Yes
Directed multilateral	Indirect costs (1)	A%	B%	C%	D%
	Project initiation	WFP	WFP	WFP	WFP
	Resource programming	Donor (with WFP)	Donor (with WFP)	Donor (with WFP)	Donor (with WFP)
	Standard WFP provisions, appeal budgets, project documents and reporting acceptable	Yes; if no, then incremental service charge	Yes; if no, then incremental service charge	Yes; if no, then incremental service charge	Yes; if no, then incremental service charge
Bilateral services	Indirect costs (2)	(2)	(2)	(2)	(2)
	Project initiation	Donor	Donor	Donor	Donor
	Resource programming	Donor	Donor	Donor	Donor

(1) Indirect cost rates to be approved by the governing body each year. The recommended rates for 1996 are A=14.5%, B=7.2%, C=4.8% and D=15.3%.

(2) Bilateral services are performed on a full cost recovery basis, with indirect support costs being recovered according to the type of service requested. Full bilateral services for development and relief, which have been requested infrequently, will be provided only in exceptional circumstances.

The current regular pledge may be eventually discontinued, with its resources largely going into the development/rehabilitation/disaster preparedness programme category; the current PRO subset of the regular pledge would be subsumed in the new PRO programme category; and the current IEFR (International Emergency Food Reserve), including the Immediate Response Account (IRA), would be reflected in the emergency programme category. In the case of a sudden emergency, WFP may "lend" development resources to the emergency provided that pledges have been confirmed to reimburse the development activities; the resources will be repaid once pledges committed are delivered.

8. Contributions to programme categories may be made as described below.

a) **Funding windows - multilateral**. A contribution will be considered "multilateral" if i) WFP determines for which WFP project/operation the

contribution will be used and how it will be used, and ii) the donor accepts reports submitted to the governing body as being sufficient for its own requirements.

Contributions through the multilateral window will provide WFP with a pool of "upfront", undirected resources for both development and relief needed to permit an immediate and/or longer-term response to the most pressing needs of the hungry. In contributing through this window, donors may specify the programme categories (i.e., development/rehabilitation/disaster preparedness; PRO, emergencies, special operations) to which their contributions will be allocated. WFP would continue to allocate these resources to individual WFP activities.

b) **Funding windows - directed multilateral**. A contribution will be considered "directed multilateral" if i) the donor requests that the contribution be directed to a specific WFP activity; ii) the donor accepts WFP standard reports (both narrative and financial); and iii) the donor accepts full cost recovery paying the estimated actual commodity and transport costs, a pro-rata share of landside transport, storage and handling (LTSH) and direct support costs, and indirect costs as determined by a cost measurement study. Contributions in response to an appeal made by WFP for a specific operation, however, will be considered multilateral if the other requirements of multilateral contributions are met. Donors making contributions through the directed multilateral funding window would require normal consultation for directing resources and would accept standard WFP procedures for executing the activity.

c) **Funding windows - bilateral**. A contribution will be considered "bilateral" if the donor directs that it be used to support a project/operation which is not initiated by WFP. Such operations must be consistent with the mission statement of WFP. Partial services offered by WFP for bilateral activities include: i) purchase of food commodities and/or ii) transport to designated recipient countries (by sea, land or air) of food commodities purchased by WFP or supplied by the donor; iii) or a special operation, in which food is not the major component. WFP will undertake full bilateral services only in exceptional circumstances.

In general, the following basic principles would be taken into consideration before WFP agreed to undertake a bilateral service: i) overall compatibility of the bilateral food aid service with the assistance provided by WFP in the recipient country, as well as with the mission statement of WFP; ii) feasibility of procurement of a given commodity through international tenders and/or triangular transactions if not specified by the donor; iii) availability of the necessary infrastructure in the recipient country to utilize properly the type and quantity of food aid offered, having regard to, *inter alia*, other food aid grants and seasonal factors.

9. **Immediate Response Account (IRA)**. The IRA will be a mixture of both a revolving fund and a replenishable fund. As a revolving fund, it will provide the funds to meet the initial needs of an emergency operation. These would be subsequently reimbursed from contributions for that emergency operation. As a

replenishable fund, the needs of emergency situations would be met, even if there were no later donor contributions for that specific emergency operation. Donors would be requested to replenish the IRA annually in order to return it to its target level in January of each year. WFP would revolve the fund to the greatest extent possible and, therefore, the proportion of the IRA which would be revolving would depend upon the contributions of donors to the operations on which the IRA funds were spent.

10. Direct contributions to the IRA may be used for food purchases and food-related costs only or for non-food requirements and logistics. Logistics and other non-food costs are needed for immediate intervention in addition to food. At present, WFP can use the mechanism of the Emergency Logistics Authorization (ELA) to pay for initial logistic requirements of a new emergency. The ELA is an authorization to advance up to 4.5 million dollars[1] a year, not exceeding 1.5 million dollars for each operation, from regular resources, which requires replenishment. Regular resources, as such, are not retained in the recommended model and so, to ensure that sufficient funds are available for non-food costs, the IRA will be increased to 35 million dollars. Contributions used for logistics and other non-food costs will not be counted towards a donor's obligation to the Food Aid Convention.

11. Funding for the IRA would be by direct donor contributions and other means. Insurance recoveries for all activities and interest on bilateral contributions will be directed to the IRA, with the agreement of each donor concerned.

12. **Commodity-only contributions**. WFP will continue to welcome commodity-only contributions from developing countries providing that the non-food requirements are provided by another donor. WFP will assist in identifying countries interested in meeting the non-food requirement of commodity-only contributions. In exceptional cases, the non-food requirement of commodity contributions of IDA-eligible countries may be met from the General Fund.

13. **Direct and indirect costs**. The CFA has affirmed the policy of full cost recovery, which includes both direct and indirect costs.

14. Direct operational costs include: a) food; b) ocean transport and related costs such as agency fees and insurance; c) LTSH and other food-related costs such as marking, bagging, stitching, milling, etc.; and d) infrastructure or project costs (in the case of special operations).

15. Direct support costs will include: a) monitoring, accounting and auditing (when specifically requested for a certain operation), non-food items, etc.; and b) other project-related expenditure such as project preparation and appraisal. Indirect costs are those associated with supporting WFP activities in general but not directly linked to a specific operation (such as executive management and direction, personnel management, financial management, audit, inspections, etc.)

[1] United States dollars.

16. Each project and operation will have a budgetary provision for the value of the food provided, its external and internal transport and other logistical costs, the direct support costs required for the implementation of the project/operation and the indirect support costs incurred by WFP.

17. Direct costs will be funded in two ways: donors will pay estimated actual commodity and transport costs and a pro-rata share of LTSH and direct support costs. Indirect support costs would be funded by donors based on a percentage of the estimated actual direct costs. (The cost measurement study, updated in time for the Fortieth Session of the CFA as agreed during the Thirty-eighth Session, determined the indirect cost recovery structure as follows: development: 14.5 percent, PRO: 7.2 percent, emergencies: 4.8 percent and special operations: 15.3 percent.) This structure would be applied to contributions irrespective of their entry window.

18. **Reporting**. The Formal Working Group found that "customized reporting requirements lead to increased, unmet costs". The cost of producing standard reports will be included in the indirect support charge by activity. Additional reports required by donors will be made available on a full cost recovery basis.

19. Comprehensive reports on the progress of WFP's development portfolio, including project specifics and the statistical data on project commitments and outstanding obligations, will be provided to the Executive Board (subject to further discussion by the SCP at its Fifteenth Session). An operations report for protracted relief and emergency operations, including both narrative and financial information on the progress of particular projects or operations, will be provided on a semi-annual basis. The format will be the same for all operations. These reports will be supplemented with a final report at the end of each operation. It is proposed that standardized reporting begin as soon as possible.

20. The Secretariat would be requested to submit the proposed reporting formats to the members for information and comment, and adapt the format as appropriate.

21. **Standard and additional services**. It is recommended that WFP undertake measures to standardize reporting, accounting procedures, appeal budgets and consultations in order to minimize costs. The standard services provided by WFP for a project/operation would be described in WFP's standard provisions, which will be developed by the Secretariat. Additional services would be provided on a case-by-case full cost recovery basis.

22. **Appeal process**. Regular consultation processes will be established to supplement the biennial pledging conference. These consultations will take place on an annual basis. A situation report appeal will be made available to members on a quarterly basis, giving details of the resourcing status and unmet needs of WFP operations (including contributions in kind and in cash). When possible, these appeals will be presented at meetings held in conjunction with sessions of WFP's governing body. In addition, individual appeals may be made by WFP and/or in conjunction with DHA for new complex emergencies as necessary.

Summary of recommendations

23. Having reached agreement on certain changes which would provide a basis for restructuring WFP's resource policies and long-term financing, the Formal Working Group recommends that the CFA approve the following:

a) that WFP use the new model for its resource policies and long-term financing, consisting of three elements: funding windows, programme categories and costs. The funding windows will be known as multilateral, directed multilateral and bilateral (as defined in paragraph 8 a), b) and c) of this paper). The elements relate to each other, as shown in Figure 1;

b) that the principle of full cost recovery apply to all programme categories undertaken by WFP, with donors paying actual commodity and transport costs, the pro-rata share of LTSH and direct support costs of the project, and associated indirect support costs of a project based on a rate established by periodic cost measurement studies to ensure full cost recovery of these costs;

c) that services to donors be standardized in accordance with standard provisions on accounting, appeals, reporting and budgeting; with additional services being provided at full cost recovery on a case-by-case basis. These standard provisions would be provided to the governing body for information and comment;

d) that the IRA be modified to serve as both a revolving and replenishable fund and that its target level be increased to 35 million dollars with contributions for food and food-related costs being clearly distinguished from contributions for non-food related costs to enable reporting to the Food Aid Committee of the International Grains Council;

e) that insurance recoveries from the WFP Insurance Fund/Insurers for all activities be used to replenish the IRA, with the agreement of the donors concerned;

f) that interest earned on contributions through the bilateral window be used to replenish the IRA, with the agreement of the donors concerned;

g) that resource consultations for development and relief operations be undertaken with members on an annual basis in conjunction with meetings of the governing body;

h) that information on availability of resources and appeals be provided on a quarterly basis;

i) that WFP provide partial bilateral services (procurement and/or transport services) to donors on the basis of full recovery of direct and indirect support costs, which, according to the most recent cost study, would be: 3.1 percent f.o.b. value for procurement services; 4.7 percent of transport costs for transport services; 3.8 percent of commodity value plus transport costs for procurement and transport services; and a rate for special operations as

approved annually by the governing body. Additional services, including full services in exceptional circumstances, would be provided on a full cost recovery basis;

j) that all the rates applied to ensure the full recovery of indirect support costs and extra services be updated annually, on the basis of a cost study (and a work measurement survey). The 1996 cost study should:

i) assess and quantify the impact of multilateral contributions;
ii) assess and quantify the benefit of readiness; and
iii) reassess the categorization costs as direct and indirect.

k) that WFP continue to welcome appropriate commodity-only contributions from developing countries provided that another donor meets all related non-food costs; WFP will, when possible, assist in identifying donors interested in meeting such costs. The non-food requirements associated with commodity contributions made by IDA-eligible countries may be met, in exceptional circumstances, from the General Fund;

l) that the CFA request the Secretariat to prepare any changes necessary in WFP General and Financial Regulations and submit them, through its governing body, to the appropriate bodies for consideration and approval. In the interim, the Secretariat should be requested to implement the new model on a trial basis commencing 1 January 1996;

m) that the following rates, based on the 1995 cost measurement study, be approved for the recovery of indirect support costs in 1996:

Development/rehabilitation/disaster preparedness	14.5 percent
PRO	7.2 percent
Emergencies	4.8 percent
Special operations	15.3 percent

n) that WFP re-negotiate with donors those agreements which do not fully conform with the new model in order that the principle of full cost recovery is met by each donor. Recognizing individual donor constraints, the Secretariat should be flexible with donors but fully recover support costs pertaining to the implementation of operations carried out with their contributions;

o) that a review of the WFP/UNHCR "Memorandum of Understanding on the Joint Working Arrangements for Refugee, Returnee and Internally Displaced Persons Feeding Operations" be undertaken by the WFP Secretariat in conjunction with UNHCR to identify way of easing resource constraints;

p) that the Secretariat be requested to develop by 31 March 1996 a concise paper on contributions made under the new model for the guidance of donors;

q) that the Executive Director monitor the income of the indirect support cost fund in relation to the PSA expenditure requirements, and report any disparities to the governing body;

r) that the Secretariat review the working of the new model and its associated policies at the conclusion of the first biennium of operation and submit a report to the governing body on the effectiveness and efficiency of the new model, together with any recommendations for improvement or changes.

ANNEX I

Excerpt from Document CFA:38/18

RESOURCE POLICIES (agenda item 8) and PROPOSALS FOR LONG-TERM FINANCING OF WFP (agenda item 9)

1. The Committee reaffirmed that WFP faced serious problems in the field of finances which demanded urgent attention. WFP's financial management systems required strengthening and improvement. Measures were also needed to ensure that WFP's programme support and administrative costs were covered on the basis of full cost recovery.

2. The Committee agreed that WFP should have a more sound and predictable resource base, preserving and strengthening WFP's multilateral character. WFP should, in principle, have the flexibility to allocate resources within the different categories of operations (development activities; feeding of longer-term refugees and displaced people; and emergency operations), according to the assessed need. The Committee also considered that WFP's resource base should be broadened by seeking additional donors, and that the Programme needed to ensure that it retained the ability to draw on different line items of donors' budgets.

3. The Committee felt that it needed detailed information on the current status of WFP's financial position and greater clarification on the cause of the present problems, as well as on the implications and possible effects of proposed changes, before it would be in a position to approve restructuring of WFP's financing and resource procedures. Maintaining the "status quo" was not considered an acceptable alternative to restructuring of the Programme's financing and resourcing procedures for the long term.

4. Accordingly, the Committee decided to establish a formal working group on options for WFP's resource policies and long-term financing, which would be open to interested members of the Programme and the observer of the European Community and would elect its officers.

5. To support the working group, the Secretariat should provide, in a consolidated manner, the following information:

   a) the secretariat papers prepared for the Thirty-eighth Session of the CFA, including comments on them by the Advisory Committee on Administrative and Budgetary Questions (ACABQ) and the FAO Finance Committee;

   b) comments made by CFA members on resource and finance issues during the Thirty-seventh and Thirty-eighth sessions of the CFA;

   c) reports on the outcome of WFP consultations with members, and particularly donors, on major constraints affecting donor funding procedures and information they needed from the Secretariat;

d) additional information on the financial situation of WFP as requested at the Thirty-eighth session, or as the Secretariat or the Group might consider would facilitate the work of the group. Such information should include, to the extent possible, transparent and consistent sets of accounts showing WFP's present resource position, both with regard to cash and non-cash resources and relating sources of resources to their use; and

e) information on the progress of continuing discussions on the need for a new financing system for United Nations operational activities, arising from United Nations General Assembly resolution 48/162.

6. Drawing on the above information, and its own decisions and deliberations, the group would:

a) analyse the causes of the present financial situation;

b) identify the main constraints to resource mobilization and utilization, including constraints to availability of sufficient cash for the PSA budget; in that context, donors would be expected to share their individual restrictions and requirements with each other;

c) make proposals conducive to:

i) bringing about, to the extent possible, increased predictability of resource availability and flexibility in their use, taking into account the multilateral character of the Programme;

ii) securing the required level of resources to be provided to WFP and optimizing their use; and

iii) ensuring the funding of administrative and other costs.

When the group could not develop single proposals for one or more of those subjects, it should develop several options or alternatives to present to the CFA.

d) assess possible needs for change of the General Regulations of the Programme that might contribute to the group's proposals or arise from them;

e) identify the other implications and, to the extent possible, the effects of its proposals and/or options on the Programme, both in the short and longer term; and

f) conduct a specific analysis of support costs deriving from bilateral services provided by the Programme, and make practical proposals aimed at attaining full recovery of those costs at an early date.

7. The Committee expected the working group to submit its recommendations on item 6 f) to the Thirty-ninth Session of the CFA for decision, together with a progress report on other items. The full report should be submitted to the Fortieth Session of the CFA.

8. In the interim, the Committee agreed that:

a) the support cost on contributions for complex emergency operations, approved by the Committee at its Thirty-second Session at 10 percent, should be nine percent for 1995, based on the 1993 cost measurement study;

b) the support cost on IEFR and PRO contributions, approved by the Committee at its Thirty-second Session at four percent, should be five percent for 1995, based on the 1993 cost measurement study;

c) the maximum limit in the scale of fees on bilateral operations, approved by the Committee in its Thirty-second Session, should be raised to not more than 225,000 dollars as an interim measure, pending the next cost measurement study, which would be used to determine a scale of charges that would ensure full cost recovery after approval by the CFA; and

d) the cost measurement study should be updated by the Fortieth Session of the CFA and periodically thereafter, to reflect the current actual cost of management of different types of activities.

9. The Committee agreed that the Secretariat would proceed with the preparation of the Strategic Financial Plan and budget for 1996-97, on the basis of current procedures allowing for possible changes to the longer-term arrangements for financing WFP.

ANNEX II

Excerpt from Document CFA:39/17

RECOMMENDATIONS OF THE WORKING GROUP ON OPTIONS FOR WFP RESOURCE POLICIES AND LONG-TERM FINANCING
(agenda item 11)

1. Under this item, the CFA had before it document CFA: 39/11 - "Chairman's Report of the Formal Working Group on Options for WFP's Resource Policies and Long-term Financing".

2. The item was introduced by the Chairman, who was also the Chairman of the Working Group.

3. The Committee took note of the progress made by the Working Group. The Committee approved the Group's interim recommendations regarding bilateral services support costs, namely that:

   a) bilateral cost-recovery rates should cover the full direct and indirect costs of supporting such operations;

   b) the schedule of cost-recovery rates be updated at least biennially on the basis of the results of the cost-measurement study so as to ensure that all costs were being covered; and

   c) the Working Group review the policy on bilateral services cost recovery in the light of recommendations on other aspects of WFP's resources policy and long-term financing to be presented to the Committee at its Fortieth Session. The review should include recommendations for definitions of bilateral services and of full cost recovery that included direct and indirect costs. If appropriate, definitions of individual services should be recommended.

ANNEX III

Excerpt from "Report of the FWG" CFA:39/11

SIGNIFICANT CONSTRAINTS

1. WFP is hampered in achieving an optimal response to new, large, complex emergencies and some smaller emergencies because of insufficient untied cash.

2. The efficiency of activities and their administration is often impaired by:

   a) Insufficient flexible resources and cash available for programmes approved by the Executive Director and the CFA;

   b) the unpredictable level and receipt time of resources[1];

   c) the programme support and administration budget (PSA) is not being fully provided for and is unpredictable;

   d) essential non-food items and services not always available to support commodities.

3. Customized reporting requirements lead to increased, unmet costs.

4. Resources inadequate to address all needs for CFA- and ED-approved activities including unpredictable but unavoidable demand on resources made by the UNHCR agreement.

5. Overhead costs for the development, IEFR, PRO, SEO, NFI and bilateral programmes are not fully defined nor recovered.

6. Management policy is not sufficiently developed or well-enough applied to effectively support operations.

7. Financial and information systems are designed to service the programme as a development programme not as an emergency/development programme.

8. Controls on assets, cash flow and expenditures are inadequate to ensure proper financial control and efficient use of resources.

9. Budgeting and financial accountability are insufficiently decentralized to ensure the accountability of decision makers.

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[1] Resources are composed of cash, commodities and services.

Annex II

SECTION OF THE REPORT OF THE COMMITTEE ON FOOD AID POLICIES AND PROGRAMMES ON ITS FORTIETH SESSION (CFA 40/15) CONTAINING THE DISCUSSION OF THE REPORT OF THE FORMAL WORKING GROUP OF THE COMMITTEE FOR WFP'S RESOURCE POLICIES AND LONG-TERM FINANCING

REPORT OF THE FORMAL WORKING GROUP ON OPTIONS FOR WFP RESOURCE POLICIES AND LONG-TERM FINANCING (agenda item 5)

14. The CFA had before it document CFA 40/5 - "Report of the Formal Working Group of the CFA on Options for WFP's Resource Policies and Long-Term Financing".

15. The report reflected the conclusions of the Formal Working Group, which was established by the CFA at its Thirty-eighth Session. The Formal Working Group, having reviewed existing mechanisms and procedures and having identified constraints, made recommendations for a new resource model and financing mechanisms.

16. The CFA took note of the achievements attained and commended the Secretariat for the strong support provided to the Formal Working Group.

17. In discussion of this topic, the CFA stressed that the Secretariat should continue to improve the systems to overcome the internal constraints identified by the Working Group. Also, it emphasized the importance of all donors paying their contributions in full and on time to effect full cost recovery. Additionally, the CFA encouraged donors to consider cash contributions in excess of full cost recovery, where possible, and stressed that the Secretariat continue to attract new donors to the Programme.

18. The CFA stressed the need to encourage a balance between development and emergency/relief activities; and to review, after two years of operation, the working of the new model and its associated policies in order to assess its overall impact on the programme and its various activities.

19. The importance of the next cost study was noted, particularly in more clearly demonstrating the cost benefits of multilateral contributions and in accurately assessing the benefits of readiness for proper attribution to emergency relief activities.

20. The CFA requested the Secretariat to ensure that the standard reporting formats corresponded, within reason, to donor needs. It also requested that reports on bilateral operations be made available to the Executive Board.

21. The CFA expressed the hope that the proposed resource consultations, to be held in Rome, would replace the marginally satisfactory biennial New York Pledging Conference.

22. The CFA endorsed the recommendations of the Formal Working Group as follows:

a) that WFP use the new model for its resource policies and long-term financing, consisting of three elements: funding windows, programme categories, and costs. The funding windows will be known as multilateral, directed multilateral and bilateral (as defined in paragraph 8a), b) and c) of document CFA 40/5). The elements relate to each other, as shown in Figure 1;

b) that the principle of full cost recovery apply to all programme categories undertaken by WFP, with donors paying actual commodity and transport costs, the pro-rata share of LTSH and direct support costs of the project, and associated indirect support costs of a project based on a rate established by periodic cost measurement studies to ensure full cost recovery of these costs;

c) that services to donors be standardized in accordance with standard provisions on accounting, appeals, reporting and budgeting; with additional services being provided at full cost recovery on a case-by-case basis. The standard provisions would be provided to the governing body for information and comment;

d) that the IRA be modified to serve as both a revolving and replenishable fund and that its target level be increased to 35 million dollars with contributions for food and food-related costs being clearly distinguished from contributions for non-food

related costs to enable reporting to the Food Aid Committee of the International Grains Council;

e) that insurance recoveries from the WFP Insurance Fund/Insurers for all activities be used to replenish the IRA, with the agreement of the donors concerned;

f) that interest earned on contributions through the bilateral window be used to replenish the IRA, with the agreement of the donors concerned;

g) that resource consultations for development and relief operations be undertaken with members on an annual basis in conjunction with meetings of the governing body;

h) that information on availability of resources and appeals be provided on a quarterly basis;

i) that WFP provide partial bilateral services (procurement and/or transport services) to donors on the basis of full recovery of direct and indirect support costs, which, according to the most recent cost study, would be: 3.1 percent f.o.b. value for procurement services; 4.7 percent of transport costs for transport services; 3.8 percent of commodity value plus transport costs for procurement and transport services; and a rate for special operations as approved annually by the governing body. Additional services, including full services in exceptional circumstances, would be provided on a full cost recovery basis;

j) that all the rates applied to ensure the full recovery of indirect support costs and extra services be updated annually, on the basis of a cost study (and a work measurement survey). The 1996 cost study should:

   i) assess and quantify the impact of multilateral contributions;
   ii) assess and quantify the benefit of readiness; and
   iii) reassess the categorization of costs as direct and indirect.

k) that WFP continue to welcome appropriate commodity-only contributions from developing countries provided that another donor meets all related non-food costs; WFP will, when possible, assist in identifying donors interested in meeting such costs. The non-food requirements associated with commodity contributions made by IDA-eligible countries may be met, in exceptional circumstances, from the General Fund;

l) that the CFA request the Secretariat to prepare any changes necessary in WFP General and Financial Regulations and submit them, through its governing body, to the appropriate bodies for consideration and approval. In the interim, the Secretariat should be requested to implement the new model on a trial basis commencing 1 January 1996;

m) that the following rates, based on the 1995 cost measurement study, be approved for the recovery of indirect support costs in 1996:

Development/rehabilitation/ disaster preparedness	14.5 percent
PRO	7.2 percent
Emergencies	4.8 percent
Special emergencies	15.3 percent

n) that WFP renegotiate with donors those agreements which do not fully conform with the new model in order that the principle of full cost recovery is met by each donor. Recognizing individual donor constraints, the Secretariat should be flexible with donors but fully recover support costs pertaining to the implementation of operations carried out with their contributions;

o) that a review of the WFP/UNHCR "Memorandum of Understanding on the Joint Working Arrangements for Refugee, Returnee and Internally Displaced Persons Feeding Operations" be undertaken by the WFP Secretariat in conjunction with UNHCR to identify ways of easing resource constraints;

p) that the Secretariat be requested to develop by 31 March 1996 a concise paper on contributions made under the new model for the guidance of donors;

q) that the Executive Director monitor the income of the indirect support cost account in relation to the PSA expenditure requirements, and report any disparities to the governing body;

r) that the Secretariat review the working of the new model and its associated policies at the conclusion of the first biennium of operation and submit a report to the governing body on the effectiveness and efficiency of the new model, together with any recommendations for improvement or changes;

s) that the Secretariat continue to pursue ways of reducing further the indirect and direct support costs for activities.